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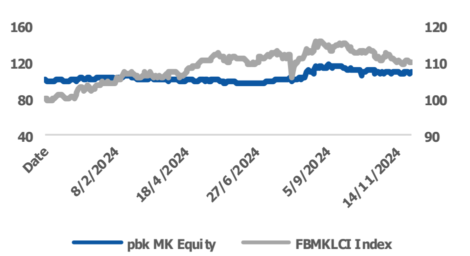
Recommendation:	**BUY**
Current Price:	**RM 4.51**
Previous Target Price:	**-**
Target Price:	**RM 5.13**
Upside/Downside:	**13.7%**

Stock information	
Board	MAIN
Sector	Financial Services
Bursa / Bloomberg Code	1295 / PBK MK
Syariah Compliant	No
FTSE4Good Index	Yes
FTSE ESG Rating	★★★★
Bloomberg ESG Rating	N/A
Shares issued (m)	19,410.7
Market Cap (RM' m)	87,542.2
52-Week Price Range (RM)	4.84-3.98
Beta (x)	1.1
Free float (%)	70.3
3M Average Volume (m)	23.5
3M Average Value (RM' m)	107.0

Top 3 Shareholders	**(%)**
Consolidated Teh Holdings Sdn Bhd	21.6
Employees Provident Fund Board	14.9
Kumpulan Wang Persaraan Diperbadan	4.1

Share Price Performance



	1M	**3M**	**12M**
Absolute (%)	1.1	-6.0	4.4
Relative (%)	1.7	-2.3	-5.7

Public Bank Berhad

Rising Dividend Yields

Summary

- **PBK is the largest non-GLC bank in Malaysia. It is notable for being strict in managing costs and asset quality standards.**
- **We like PBK for several reasons: (i) Its industry-leading ROE and stable earnings, (ii) Its status as a defensive pick, given its excellent asset quality and low NCC, (iii) Its progress towards achieving a more well-rounded NOII profile, (iv) Potential upside to rising dividend payout.**
- **We initiate coverage on PBK with a BUY recommendation with a TP of 5.13 based on FY25F GGM-PBV of 1.61x.**

Company Background

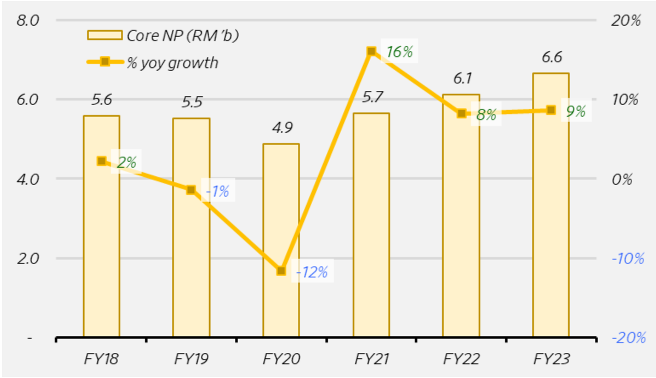
- Public Bank (PBK) was founded in 1966 by the late Tan Sri Dato' Sri Dr. Teh Hong Piow. On 6 August 1966, Public Bank opened its first branch at Jalan Gereja, Kuala Lumpur. With its vision of being a 'bank for the people', Public Bank started providing banking services to the masses in Malaysia.

- With its resilient business model, the Group has maintained a track record of unbroken profitability for 56 consecutive years. The Group is highly reputed for its stellar performance, especially in sustaining the highest return on equity, maintaining the most efficient cost-to-income ratio, and maintaining the best asset quality among domestic banks. The Group remains a market leader in several major business segments, including consumer banking, commercial banking for small and medium enterprises (SME), and unit trust.

Income Statement

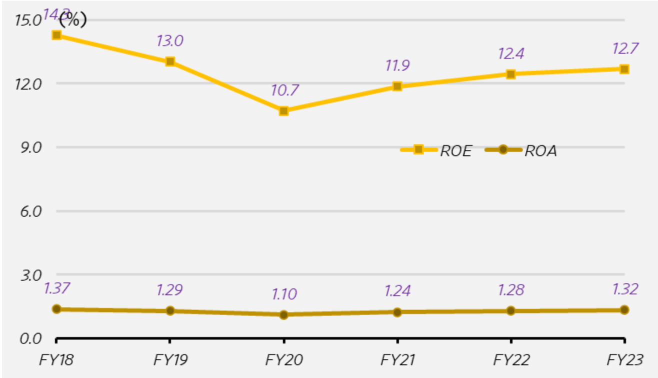
- **Earnings and ROE.** A steady earnings CAGR in recent years has been difficult to determine due to earnings distortions caused by the Covid-19 pandemic. Regardless, PBK is preferred by investors due to its high ROE levels, which always falls between the 12-13% range. This is due to its strict cost control and low provisioning.

Fig 1: Core Net Profit



Source: PUBLIC BANK

Fig 2: Return on Equity and Return on Assets

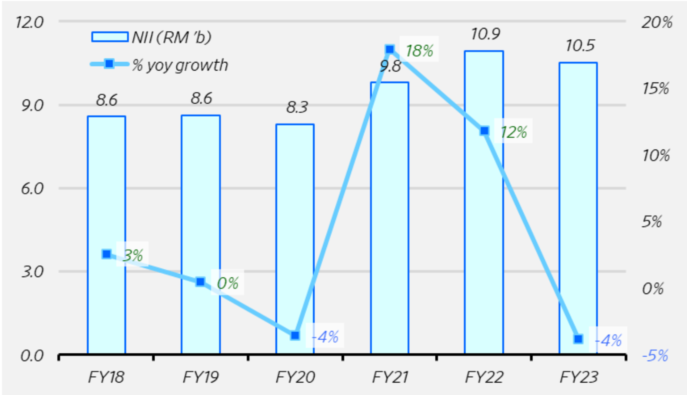


Source: PUBLIC BANK

- **Management NII and NIM.** PBK's NIM is moving roughly in line with the rest of the industry. Its NIM is expected to remain relatively stable despite facing challenges from intense loan pricing competition – notably in residential mortgages, which make up the brunt of PBK's loan book. It has managed this compression well thus far by repricing both FD board and promotional rates downward.

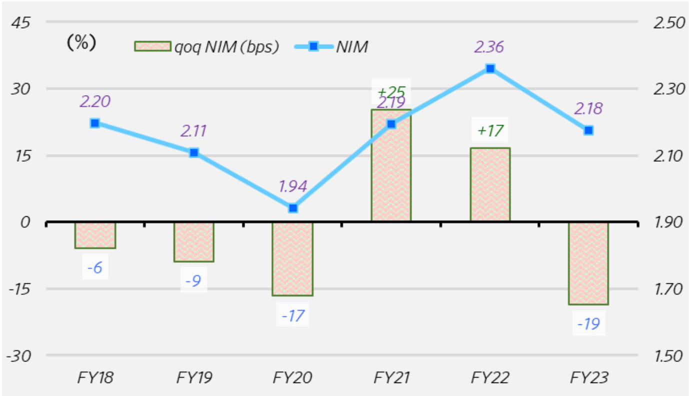
- Going forward, PBK is ramping up its infrastructure and running multiple campaigns to tap into the more attractive SME loan segment as a strategic growth area. It also is relying heavily on its hire purchase contributions as a buffer against loan yield compression, as this loan segment has yet to reach an uncomfortable level of competition.

Fig 3: Net Interest Income



Source: PUBLIC BANK

Fig 4: Net Interest Margins

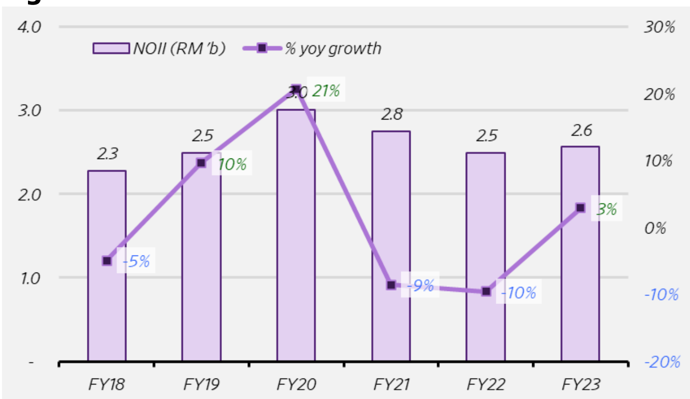


Source: PUBLIC BANK

- **NOII.** PBK's NOII makes up a relatively small portion of its topline. Most of PBK's NOII comes from fee income – specifically, from the unit trust business. Poor market conditions have led to weaker returns in prior years, but conditions have improved.

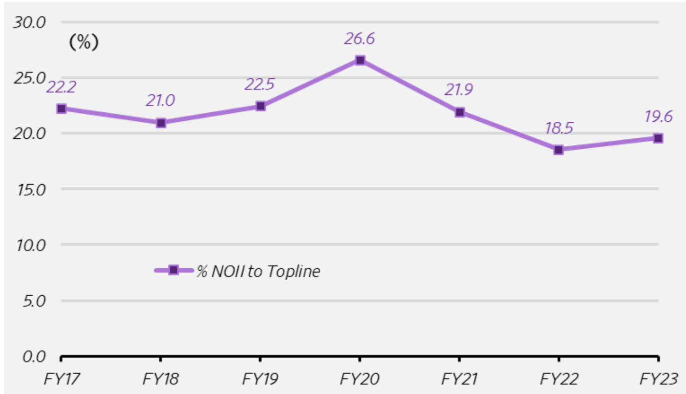
- We believe that other NOII contributors are somewhat lacking – treasury only deals with very simple products, while wealth management and client-based business is not as built up as some of its peers. This is mostly due to PBK's unwillingness to invest as part of its stringent cost management.

Fig 5: Non-Interest Income



Source: PUBLIC BANK

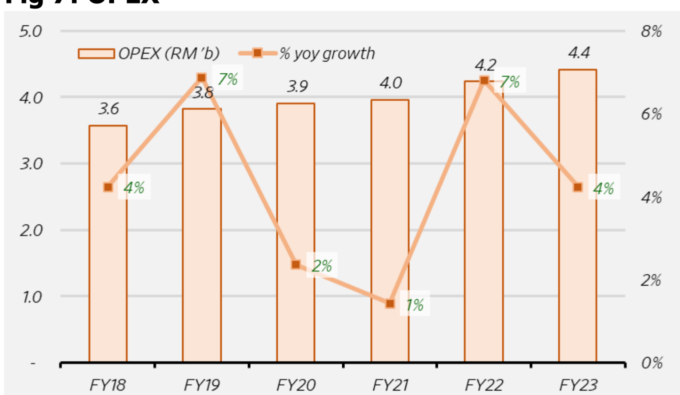
Fig 6: Non-Interest Income as % of Topline



Source: PUBLIC BANK

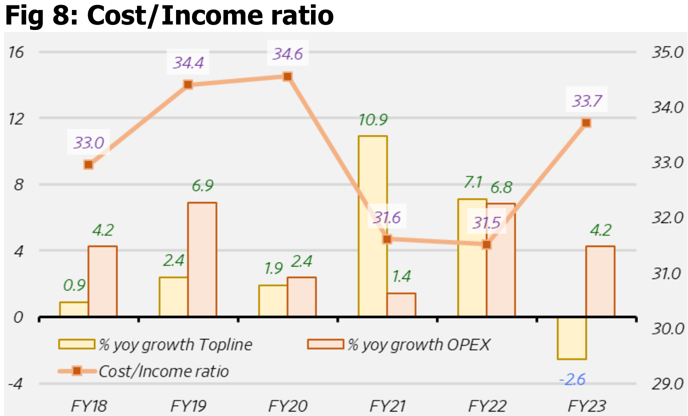
- **OPEX.** PBK's cost/income ratio is the lowest in the industry. Management usually keeps OPEX growth to a minimum. However, this figure is expected to rise as management ramps up tech costs while spending more on its SME-related infrastructure and campaigns. Expect sharp wage inflation to also drive up personnel costs.

Fig 7: OPEX



Source: PUBLIC BANK

Fig 8: Cost/Income ratio

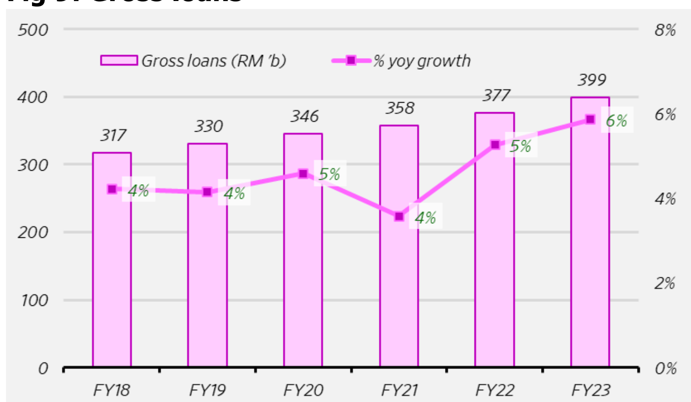


Source: PUBLIC BANK

Balance Sheet

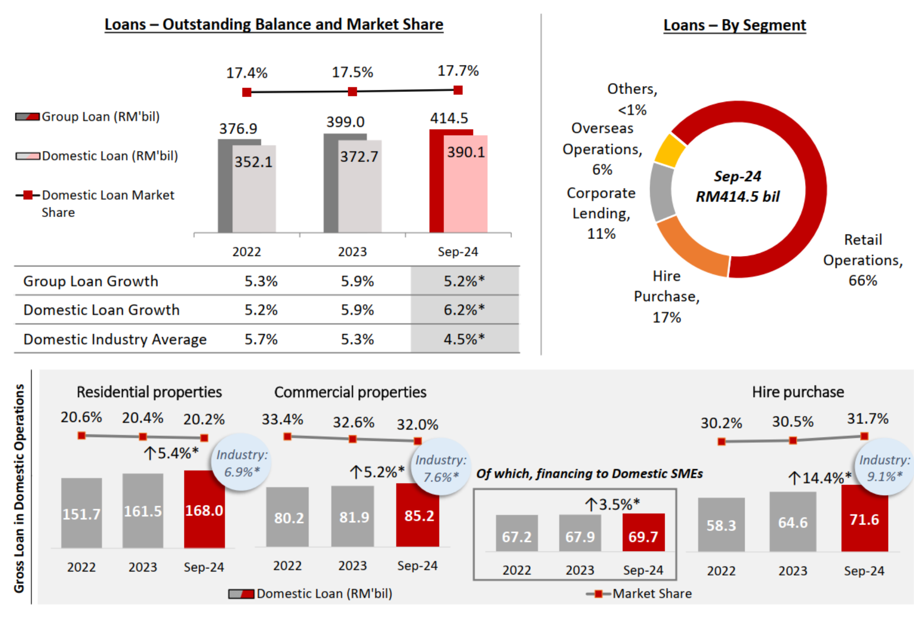
- **Loans.** PBK's loan growth is roughly in line with or above industry figures. Its loan portfolio consists largely of retail loans (namely, residential mortgages and hire purchase loans). It boasts a large market share in several of these categories. In contrast, domestic SMEs make up a small proportion of the loan book but seem to have posted better, stable growth in recent years (in comparison to negative growth seen a few years back).

Fig 9: Gross loans



Source: PUBLIC BANK

Fig 10: More on Loans

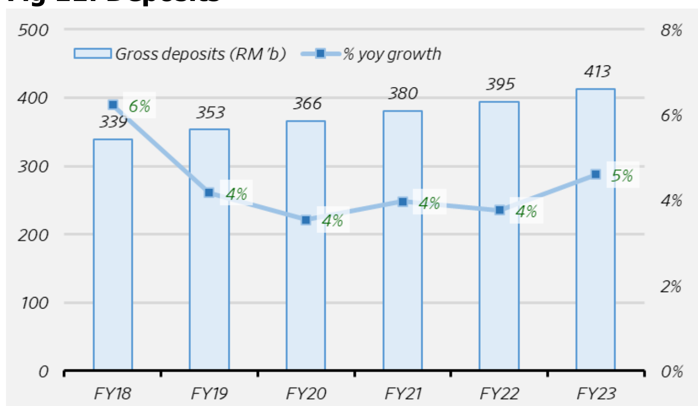


Source: PUBLIC BANK

- **Deposits, CASA and Liquidity.** PBK's deposit growth tends to be weaker than loan growth. Regardless, PBK is still able to maintain a large proportion of the domestic market share. Note that PBK's approach to loan growth is very much deposit-led.

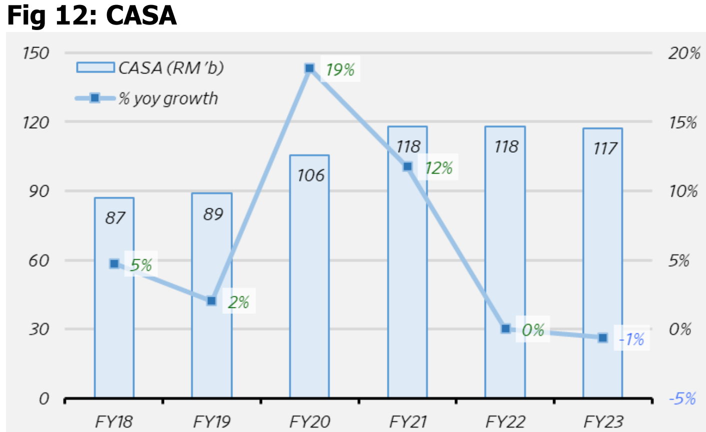
- Its CASA ratio is one of the lowest in the industry – we chalk it up to its lower exposure to pricier, non-retail CASA. We view this positive: While CASA is sparse, it is likely comprising of largely cheap, high quality retail CASA.

Fig 11: Deposits



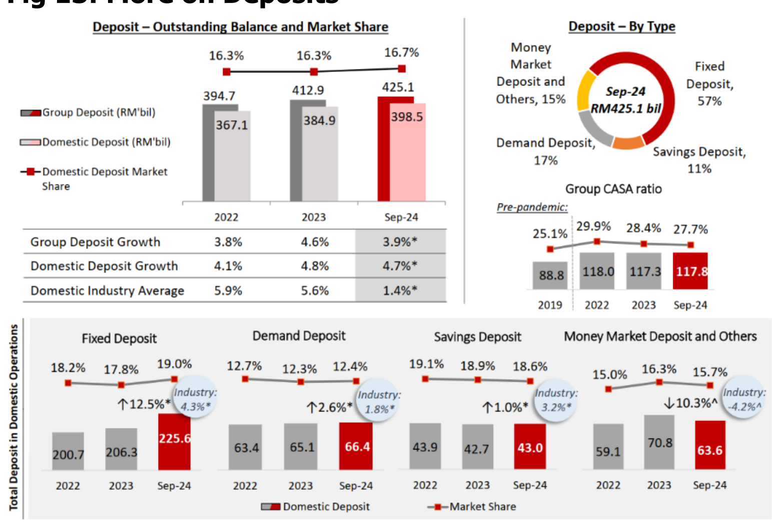
Source: PUBLIC BANK

Fig 12: CASA



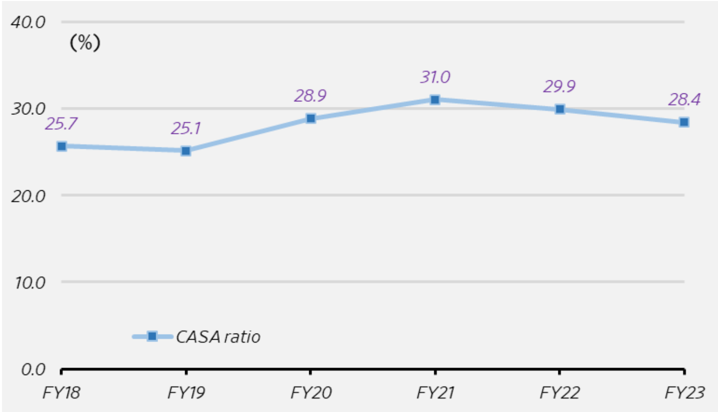
Source: PUBLIC BANK

Fig 13: More on Deposits



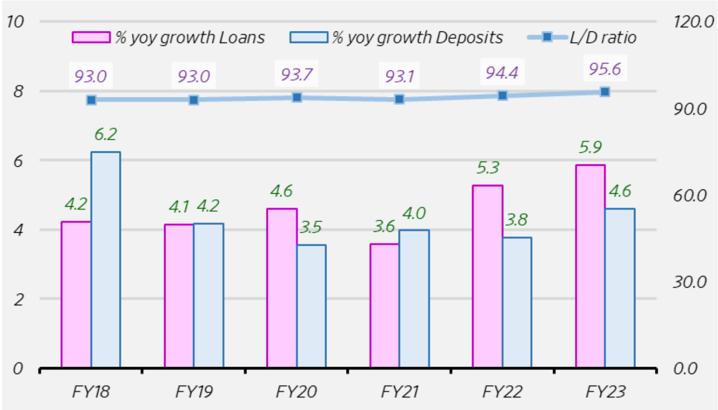
Source: PUBLIC BANK

Fig 14: CASA ratio



Source: PUBLIC BANK

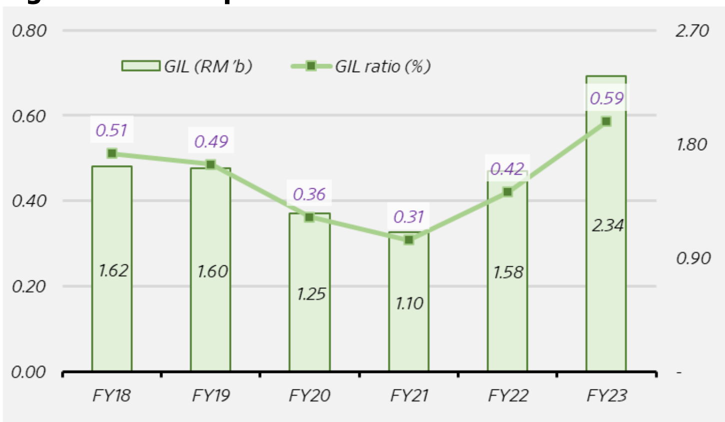
Fig 15: Loan/Deposit ratio



Source: PUBLIC BANK

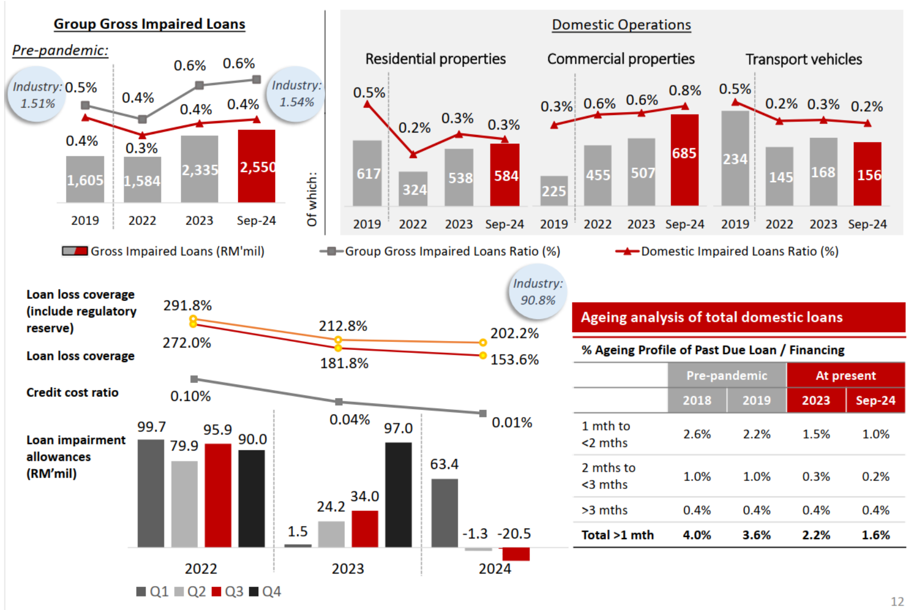
- **Asset quality and provisioning.** PBK's asset quality is among the best in the industry. Strict underwriting standards and a higher proportion of safer, collateralised retail loans contribute towards this. Its LLC remains very high, especially given that its loans are mostly well collateralised. We are wary that certain lumpy overseas impairments (particularly in the China and Hong Kong region) are actively causing GIL ratio to spike, though this has been tapering as of late.

Fig 16: Gross Impaired Loans



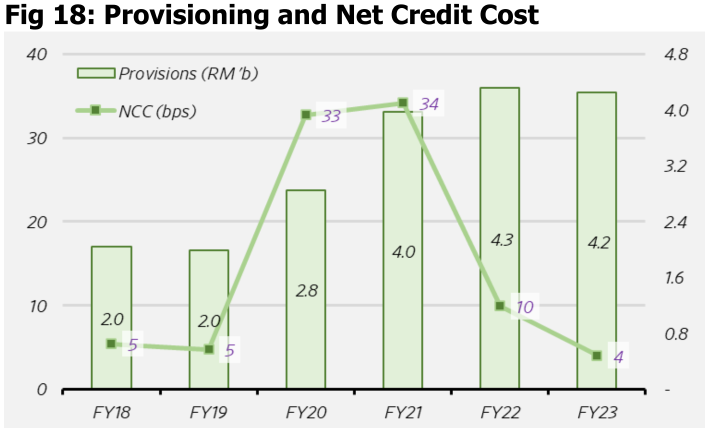
Source: PUBLIC BANK

Fig 17: Asset Quality in further detail



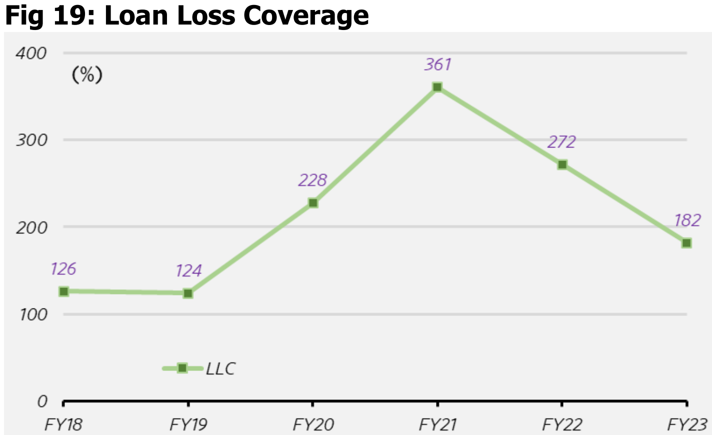
Source: PUBLIC BANK

Fig 18: Provisioning and Net Credit Cost



Source: PUBLIC BANK

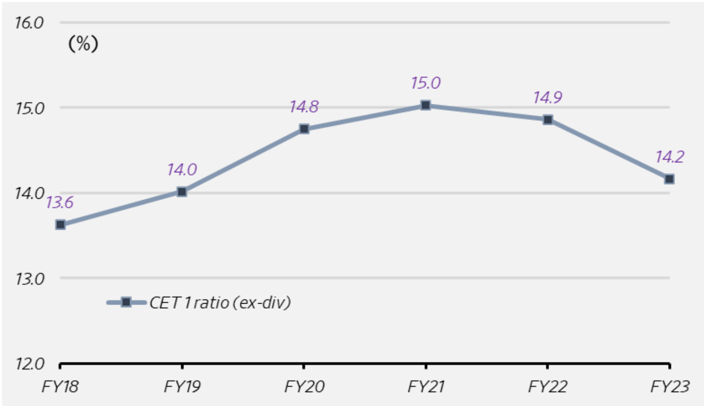
Fig 19: Loan Loss Coverage



Source: PUBLIC BANK

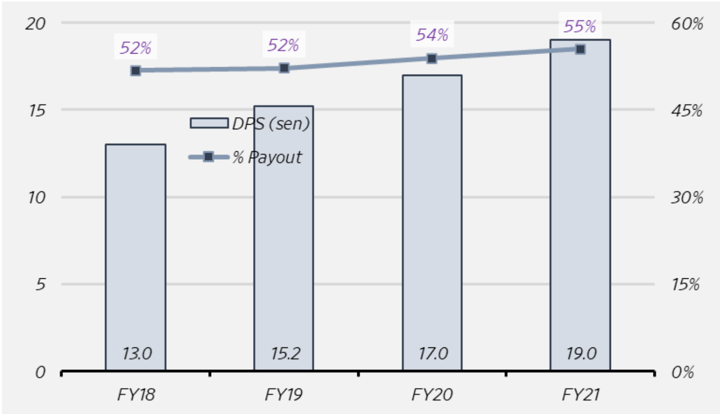
- **Capital and dividends.** PBK's CET 1 ratio is at a decent ~14% level, well above its comfortable 13% level. PBK is actively increasing its dividend payout – increases are gradual and intended to reach the 60% level in a couple of years.

Fig 20: CET 1 ratio



Source: PUBLIC BANK

Fig 21: Dividend Payout



Source: PUBLIC BANK

Investment Highlights

- **Industry-leading ROE and stable earnings.** PBK's 12-13% ROE is among the industry's highest. There are two main factors: (i) The lowest cost/income ratio in the industry due to its excellent cost control, and (ii) Low provisioning charges due to excellent asset quality.

- We think PBK's dividend certainty is very high. This is because PBK's earnings are also much more stable than most industry peers for several reasons: (i) It has a very low NOII dependency, as the proportion of topline consisting of NOII is c.20%, which implies the overwhelming remainder is from traditional lending and deposit taking activities, (ii) Of its NOII contribution, only a small portion comes from non-fee income (which tends to be more volatile), (iii) Its strong asset quality prevents any instances of large impairments from happening.

- **Defensive pick, given high asset quality and low NCC.** PBK's GIL ratio of 0.53% is currently among the lowest in the industry. As a result, its NCC is also very low, usually <5bps. Its LLC of 154% is also among the highest in the industry (especially given the heavily collateralised nature of its loanbook), implying that there is room for a few more writeback instances.

- Its excellent asset quality is attributable to two main factors: (i) PBK practises very strict underwriting standards, (ii) Its loan portfolio is mostly retail (particularly residential mortgages and hire purchase loans), which tends to be safer than non-retail loans. While the Group seeks to grow its commercial (SME) book, we doubt this will significantly impact asset quality.

- **Moving towards a more well-rounded NOII profile.** PBK has historically been overly dependent on Public Mutual's unit trust contributions. (For context, Public Mutual is Malaysia's largest private unit trust company, with the largest retail market share of c.38%.)

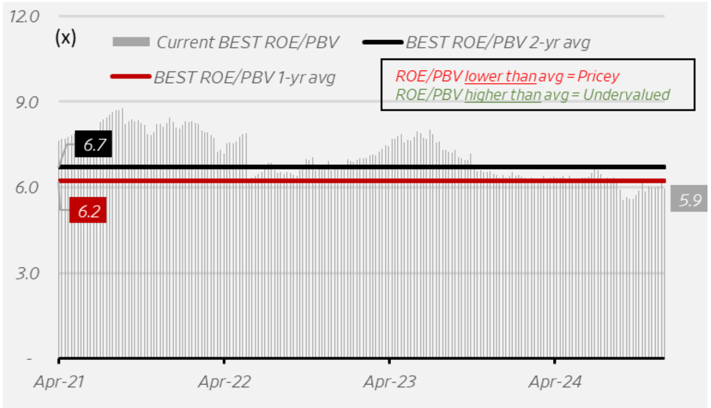
- Recently, management seems to be working towards amping other sources of NOII, including reworking its insurance (via the acquisition of LPI capital) and overseas contributions (via the acquisition of RHB's stockbroking business in Vietnam). We see this as a positive, as other banks heavily invest in the NOII space – implying that PBK needs to maintain a competitive edge or risk being left in the dust.

- **Potential upside to rising dividend payout.** Management has made it a point to steadily increase PBK's dividend payout ratio over time. The intention is to increase it to 60% from the c.55% level it is currently at. Given the Group's high capital accretion from profit, we think there's upside potential: Management has indicated that its optimal CET 1 ratio is 13%, still far below the current level of 14.3%. Note that PBK usually gives out full cash dividends as well.

Valuation & Recommendation

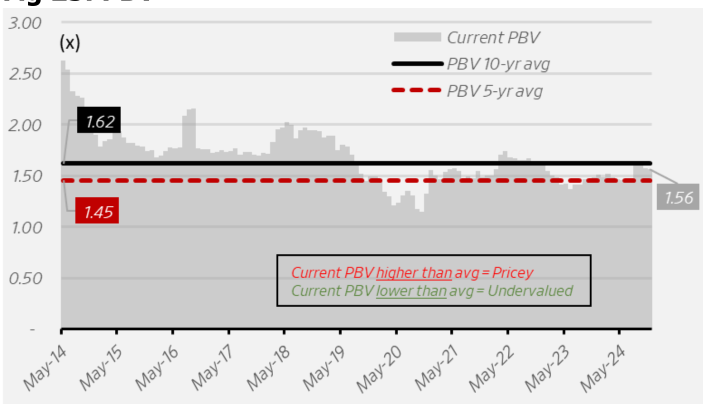
- We initiate coverage on PBK with a **BUY** recommendation and a target price of **RM5.13** based on an FY25F PBV of 1.61x GGM-PBV valuation. (GGM Assumptions: FY25F ROE of 12.5%, LTG of 3.5%, & COE of 9.1%.)

Fig 22: BEST ROE/PBV



Source: PUBLIC BANK

Fig 23: PBV



Source: PUBLIC BANK

- We favour PBK for its (i) High ROE level and stable earnings, (ii) Defensive characteristic due to its high asset quality and low NCC, and (iii) Its move towards a more well-rounded NOII profile, and (iv) Potential upside to rising dividend payouts.

Key Risks

- **Some irritation in overseas GILs.** As of late, PBK has experienced several larger impairments in its overseas segments – most notably in the Hong Kong and China region. This has caused PBK's GIL ratio to increase over time – we fear that if this trend continues, it could cause PBK's asset quality and provisioning profile to worsen.

- **Poor market conditions could affect unit trust income.** PBK's unit trust incomes comprise a large portion of its topline. Poor market conditions or unit trust take-up will negatively impact this source of income.

- **Overly dependent on thin-margined consumer loan segment.** PBK has a reputation for being a retail bank – its bread and butter are residential mortgages. With residential mortgages being such an important driver of growth, PBK is more exposed to declining residential mortgage loan yields (which is currently happening)

Financial Highlights

Income Statement

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Net interest income	**9,167**	**9,055**	**9,226**	**9,666**	**9,981**
Islamic banking inc.	1,857	1,562	1,953	2,046	2,112
Other operating inc.	2,414	2,476	2,667	2,685	2,809
Net income	**13,438**	**13,093**	**13,845**	**14,396**	**14,902**
OPEX	(4,235)	(4,415)	(4,707)	(4,751)	(4,918)
PPOP	**9,203**	**8,678**	**9,138**	**9,646**	**9,985**
Loan allowances	(366)	(157)	(41)	(43)	(177)
Other allowances	(13)	(1)	(11)	(11)	(11)
JV & Associates	7	19	160	160	160
PBT	**8,831**	**8,539**	**9,246**	**9,752**	**9,956**
Tax & zakat	(2,661)	(1,884)	(2,053)	(2,165)	(2,210)
NCI	(50)	(6)	(86)	(91)	(93)
Reported NP	**6,119**	**6,649**	**7,107**	**7,496**	**7,653**
Core NP	**6,119**	**6,649**	**7,107**	**7,496**	**7,653**
Total NII	10,949	10,531	10,983	11,507	11,882
Total NOII	2,489	2,562	2,862	2,889	3,020

Balance Sheet

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Cash & ST funds	21,767	11,127	17,780	17,780	17,780
Investment securities	81,387	86,731	84,318	82,923	82,848
Net loans	372,583	394,750	412,911	430,401	448,478
Other IEAs	4	1	1	1	1
Non-IEAs	17,522	17,988	23,052	23,647	24,278
Total assets	**493,263**	**510,598**	**538,062**	**554,752**	**573,385**
Customer deposits	394,719	412,897	431,477	449,599	468,483
Other IBLs	37,989	32,056	30,199	28,660	27,381
Non-IBLs	9,029	9,264	16,708	13,082	10,310
Total liabilities	**441,737**	**454,218**	**478,384**	**491,341**	**506,174**
Share capital	9,418	9,418	9,418	9,418	9,418
Reserves	40,762	45,257	48,748	52,386	56,090
Shareholders' funds	**50,179**	**54,674**	**58,166**	**61,803**	**65,507**
NCI	1,347	1,706	1,512	1,607	1,703
Total equity	**51,526**	**56,380**	**59,678**	**63,410**	**67,210**
Total L&E	**493,263**	**510,598**	**538,062**	**554,752**	**573,385**
Total IEAs	475,741	492,610	515,010	531,105	549,106
Total IBLs	432,708	444,953	461,676	478,259	495,864
Gross loans	376,892	398,997	416,951	434,463	452,711
CASA	118,033	117,295	112,184	112,400	117,121

Key Ratios

FYE Dec (RM m)	FY22	FY23	FY24F	FY25F	FY26F
Interest (%)					
NIM	2.36	2.18	2.18	2.20	2.20
Return on IEAs	3.22	3.73	3.42	3.38	3.33
Cost of funds	1.37	2.05	1.77	1.70	1.64
Net interest spread	1.84	1.68	1.65	1.67	1.69
Profitability (%)					
ROE	**12.4**	**12.7**	**12.6**	**12.5**	**12.0**
ROA	1.3	1.3	1.4	1.4	1.4
NOII/Net income	18.5	19.6	20.7	20.1	20.3
Effective tax rate	30.1	22.1	22.2	22.2	22.2
Cost/Income	31.5	33.7	34.0	33.0	33.0
Liquidity (%)					
Loan/Deposit	94.4	95.6	95.7	95.7	95.7
CASA ratio	29.9	28.4	26.0	25.0	25.0
Asset Quality (%)					
GIL ratio	0.42	0.59	0.57	0.55	0.55
LLC ratio	272	182	170	170	170
LLC (w. reserves)	292	213	190	190	189
Net CC (bps)	10	4	1	1	4
Capital (%)					
CET 1	14.9	14.2	14.2	14.0	13.8
Tier 1 capital	14.9	14.7	14.7	14.5	14.3
Total capital	17.9	17.6	17.6	17.5	17.3
Growth (%)					
Total NII	11.8	-3.8	4.3	4.8	3.3
Total NOII	-9.5	2.9	11.7	0.9	4.5
Net income	10.2	-1.2	1.9	4.8	3.3
OPEX	6.8	4.2	6.6	0.9	3.5
Core NP	8.2	8.7	6.9	5.5	2.1
Gross loans	5.3	5.9	4.5	4.2	4.2
Customer deposits	3.8	4.6	4.5	4.2	4.2
CASA	0.0	-0.6	-4.4	0.2	4.2
Valuation metrics					
Core EPS (sen)	31.5	34.3	36.6	38.6	39.4
Gross DPS (sen)	17.0	19.0	19.4	20.5	20.9
Div payout (%)	54	55	53	53	53
BVPS (RM)	2.6	2.8	3.0	3.2	3.4
Core P/E (x)	14.3	13.2	12.3	11.7	11.4
Div yield (%)	**3.8**	**4.2**	**4.3**	**4.5**	**4.6**
P/BV (x)	1.7	1.6	1.5	1.4	1.3

APEX SECURITIES BERHAD – CONTACT LIST

APEX SECURITIES BHD

Head Office:
5th Floor Menara UAC, 12, Jalan PJU 7/5,
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46050 Petaling Jaya,
Selangor Darul Ehsan, Malaysia

General Line: (603) 7620 1118

DEALING TEAM

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Ahmad Mujib (ext 2028)
Azfar Bin Abdul Aziz (ext 2031)
Aizzat Bin Mohd Daud (ext 2030)

Institutional Dealing Team:
Low Jin Wu (ext 2109)

PJ Office:
General Line: (603) 7620 1118

RESEARCH TEAM

Head Office:
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Jayden Tan (ext 2069)
Chelsea Chew (ext 2070)
Tan Sue Wen (ext 2095)
Ong Tze Hern (ext 2113)
Samuel Woo (ext 2121)
Amir Hamdan (ext 2112)

RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.

DISCLAIMER